



MEMORANDUM

CITY OF ROLLING HILLS ESTATES

DATE: JUNE 17, 2016

TO: MAYOR AND CITY COUNCIL

FROM: DOUGLAS R. PRICHARD, CITY MANAGER
GREG GRAMMER, ASSISTANT CITY MANAGER
MICHAEL C. WHITEHEAD, ADMINISTRATIVE SERVICES DIRECTOR

SUBJECT: PROPOSED FY2016-17 BUDGET

This memorandum will serve to transmit the proposed budget for Fiscal Year 2016-17 for discussion at the June 17 City Council Budget Study Session. The budget document incorporates direction and decisions from Budget Subcommittee, which met on June 8. This document also includes projected year-end budget numbers for FY 2015-16.

OPERATING REVENUES

Total General Fund operating revenues and expenditures for FY 2015-16 are projected to be \$8,962,053 and \$6,937,307 respectively, with an estimated net positive operating result for FY 2015-16 of \$2,029,947 (23%). This is slightly higher than the projected 22% surplus estimated when the budget was adopted in June of 2015. Total General Fund operating revenues for FY 2016-17 are proposed at \$9,891,589. Total General Fund operating expenditures are proposed at \$9,598,798, which includes an extraordinary expenditure of \$1,814,634 to pay off in full the Pre-2013 PERS Unfunded Accrued Liability. Net estimated year end operating result will be \$2,289,626 or 23% after taking into account the PERS UAL pay-off.

General Fund unassigned fund balance is projected to be \$2,569,894 at June 30, 2016, and \$2,408,998 at June 30, 2017, while several other designated reserves have been increased to reflect budget priorities.

Major revenue assumptions come from conservative estimates based on actual revenues received in FY2015-16. Sales tax continues to be flat as projected by MuniServices, however the "triple flip," a complex, decade-old mechanism affecting state and local finances in California, has ended. As such, all of sales tax revenue is reported in the Sales Tax (01-3120) account and the Property Tax in lieu of Sales Tax – State (01-3308) has been eliminated. Sales tax may see some improvement late in FY

2016-17 as tenants should begin to occupy the spaces currently under remodel at the Peninsula Shopping Center.

Property tax is expected to increase based on calculations provided by the Assessor's office and MuniServices. Building Permit revenues are expected to remain at historically high levels for the next few years based on actual and anticipated developments projects. Specifically, building permit fees, which will total approximately \$3,000,000 in FY 2015-16, are expected to total \$4,000,000 in FY 2016-17. Further, planning fees are anticipated to total \$300,000, new construction tax (\$500/residential dwelling unit) will generate approximately \$50,000, which includes the construction of new units in approved residential projects along Deep Valley Drive and the start of the building of homes at Chandler Ranch.

The loss of the landfill regulations revenue from the closure of Chandler Sand and Gravel will be offset by the increase in property tax from the new development of the property, but we do not expect a large increase revenue as the City's share of property tax is minimal.

Investment interest rates remain at all-time lows (below 1% return) in LAIF and Certificates of Deposit. However, competitive grants and special fund revenues continue to remain strong, funding the recently completed Silver Spur Pedestrian Pathway Project and three-rail fencing replacement, as well as the Traffic Signal Modification Project on Palos Verdes Drive North at Rolling Hills Road and various Resurfacing Projects.

The budget includes revenue received from the operation of the stables by the City's concessionaire. This revenue has been paying down the Equestrian Fund's negative fund balance over the past few years. It is estimated that the Equestrian Fund will be completely paid down in the second half of FY2016-17. After that, the fund will be eliminated and the concessionaire fees will be credited to the General Fund. Progress toward paying down the negative balance in the Equestrian Fund can be charted on the Fund Balance Exhibit H in the line Advance to Other Funds.

Quimby Fees have generated \$1,000,000 in FY2015-16 allowing for citywide park improvements. The City has received \$800,000 in revenue from the Special Chandler Contribution for equestrian-related projects as identified in the Capital Improvement Budget. The fund has a current balance of approximately \$765,000, but has been identified as the source of funds for several proposed capital projects as well as the backfill source of revenue for any shortfall between grant revenues and the actual cost of the PWEC improvement project completed in FY2015-16.

OPERATING EXPENDITURES

Expenditure assumptions include maintaining existing service levels in most major expenditure categories.

Public Safety shows a substantial increase in FY2016-17 as a result of a number of factors. Sheriff's costs are set to go up by 3.7% due to contracted salary increases for deputies and an additional 3.5% due to increases to the Liability Trust Fund Surcharge (9.5% total surcharge). On-going increases will also be attributable to the addition of one detective for the Lomita Station Surveillance and Apprehension Team (SAT) in the amount of \$55,000. A one-time increase of \$80,000 for installation of the Automatic License Plate Recognition (ALPR) cameras is also reflected in this cost center.

The City's regional cost percentage is 28%, with Rancho Palos Verdes' share at 68% and Rolling Hills' share at 4%.

The line item for watering of our parks and parkways continues to be reduced due to elimination of turf watering in the City's medians in response to the Governor's executive order.

Funds in the amount of \$300,000 have been included in the FY 2016-17 Budget to begin the process of updating the City's General Plan as specified revenues will start to be received from development projects subject to the surcharge levied for that purpose.

Funding for tree trimming projects has been increased from \$120,000 to \$131,000 in FY2016-17 due to the new State Prevailing Wages adopted for various categories of tree workers

PERSONNEL

The FY 2016-17 Budget reflects an additional contribution to the PERS Unfunded Accrued Liability (UAL) in the amount of \$1,814,634, which would eliminate the amortization base for the City's share of the Pre-2013 Pool UAL, resulting in long-term interest savings of approximately \$1,900,000.

PERS FY 2016-17 contributions for Tier I employees (those hired prior to July 1, 2011) will be 9.558%. Contribution rates Tier II employees (those hired after July 2011) will be 7.807%. Contribution rate for Tier III employees (new to PERS after PEPR) 6.930%.

Salary administration reflects a proposed Hybrid Merit System whereby all staff would receive a 2.5% cost of living salary adjustment and employees will be eligible for a performance bonus at the City Manager's discretion. Cost of the proposed system is approximately \$88,896 for FY 2016-17.

The FY 2016-17 Budget includes funds for the purchase of a new vehicle for the City Manager. The Assistant City Manager (whose vehicle is also due for replacement) has requested a monthly car allowance in lieu of a City-provided vehicle, resulting in a net savings of approximately \$30,000. The FY 2016-17 Budget reflects an increase to \$500 for the monthly car allowance for department heads and the addition of the Assistant City Manager. The car allowance has been in place for nearly 25 years and the current \$300 amount has remained unchanged since 2002.

CAPITAL PROJECTS

The Peter Weber Equestrian Center Project has been completed and the remaining grant reimbursement payments will be forthcoming in FY 2016-17 from the State Proposition 84 Grant and the Los Angeles County Proposition "A" Grant.

The upgrading and replacement of the City's I.T. equipment and software will continue for next fiscal year. Major projects include replacing the main server, adding an additional network switch, upgrading the Windows Server software, and evaluating the telecommunication's system. The City's PEG fees will be utilized to upgrade and replace the audio, visual, and broadcast systems located in the Council Chambers and server room in the early part of FY 2016-17.

The Howlett Park Pathways project has funds available through a Proposition A Competitive Grant (\$249,500).

The Quimby Fees and Chandler Contribution Fund will allow for park, recreational and equestrian improvements over the next several years as identified in the Capital Projects Budget.

The Special Chandler Contribution Fund, which can only be used for equestrian related projects, is proposed to provide improvements at Howlett Park, including: new arena base (\$75,000); warmup arena (\$40,000); new booths (\$36,000); and a new show office (\$25,000). Additionally, this fund may provide a new restroom facility (\$50,000), and a capital projects match (\$25,000) and/or meet project revenue shortfall needs at the Peter Weber Equestrian Center. Lastly, three rail fencing replacement along the City's bridle trails (\$100,000) is also proposed for this funding source.

The Public Works Capital Improvements includes approximately \$1,200,000 for Street Resurfacing work (doubling typical annual efforts during this time of exceptional revenues to make headway on long-term streets improvements) and \$500,000 in Storm Drain repairs, if needed. An additional \$600,000 has been assigned to Capital Projects reserves, which can be used for streets, storm drains or any other capital project.

Curb, gutter and sidewalk repair, utilizing a combination of CDBG and General Funds, is proposed in the amount of \$50,000.

FUND BALANCES

Various fund balances have been revised to reflect our best understanding of future obligations. The newly adopted Fund Balance Policy calls for \$1.2 million be allocated towards an Emergency Reserve, with the balance of Unassigned Fund Balance allocated towards a Contingency Reserve. Total Unassigned Fund Balance should represent at least 25% of operating expenditures. Any amount above the required 25% combined Emergency and Contingency Reserve is available for any use designated by Council. The budget as proposed anticipates utilizing this excess fund balance to pay off the Pre-2013 UAL and increase expenditures for street capital projects.

The Assigned Capital Projects reserve has been increased to \$600,000 for new roofs on the City Hall and Council Chambers, and City Hall office upgrades. The Advance to Other Funds designated reserve is decreasing faster than projected from the quarterly payments from the Peter Weber Equestrian Center's concessionaire exceeding estimates. Also, the CLEEP Grant reserve will be depleted with the ALPR unit purchase for the Sheriff's Department.

FISCAL FUTURE

With Building Permit fees strong both this year and the next couple budget cycles, the City is in a strong fiscal position. Even so, the large development projects we continue to see will provide a revenue stream of limited duration. Building Permits and Planning related fees, although recurring revenues, will fluctuate dramatically with the local economy. The other recurring revenue that is subject to fluctuation is sales tax. Taking these fluctuations into account in our financial planning will help the City to maintain a solid financial position.

As for long term capital asset maintenance, we have been to this point and expect in the foreseeable future to continue to keep pace with the recommendations of our most recent Pavement Management System (PMS) report. During these flush times we expect to get ahead of schedule on maintenance of this, our most costly, capital asset. The next PMS analysis should take place in FY2017-18.

We will also continue to undertake repairs to the most severely damages curbs, gutters and sidewalks as identified by the survey conducted in FY2013-14. Storm drain cleaning and inspection is also scheduled in FY2016-17 following this year's survey of our storm drain system.

Over the years we have maintained our capital infrastructure through a combination of grant funds and utilization of operating revenue in excess of expenditures. During this period of unprecedented revenues, we will be able to continue the "pay as you go" method of capital asset management. However, a long term plan to maximize the effectiveness of maintenance efforts and minimize future costs as we address the maintenance needs of these major assets may require a new funding source at some point in the future.

SUMMARY

Key revenues are at historic highs, while operating expenditures remain well within revenue projections. This will allow the opportunity for increased capital investment, replenishment of critical reserves and recognition of outstanding employee performance during this, and the next several, budget cycles.